

February 8, 2018

**Credit Headlines:** Ezion Holdings Ltd, DBS Group Holdings Ltd, Singapore Telecommunications Ltd, ABN Amro Group NV

**Market Commentary:** The SGD swap curve bull-flattened yesterday, with swap rates trading 2-3bps lower for the short tenors, while the longer tenors traded 3-4bps lower. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS narrowed 1bps to 109bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS traded narrowed 5bps to 343bps. 10Y UST yields rose 3.4bps to 2.84%, after a US24bn 10-year sale drew a yield that was highest in four years.

**New Issues:** Daegu Bank Ltd has priced its USD300mn 5.5-year bond at CT5+135bps, tightening from its initial guidance of CT5+155bps area. The expected issuer ratings are 'A-/A2/NR'. Shangrao Investment Holdings International Co Ltd has priced its USD200mn 3-year bond (guaranteed by Shangrao Investment Holdings Co Ltd) at 6.4%, tightening from its initial guidance of 6.5%. Full Dragon (Hong Kong) International Development Ltd has priced its USD300mn 3-year bond (guaranteed by Fujian Zhanglong Group Co Ltd at 5.85%, tightening from its initial guidance of 6%. The expected bond ratings are 'NR/NR/BB+'. Red Star Macalline Group Corp Ltd has plans to issue an USD700mn bond.

**Credit Headlines:**

**Ezion Holdings Ltd ("EZI"):** EZI announced that it has successfully secured refinancing from its six secured lenders, having signed binding term sheets to refinance USD1.5bn. The new financing package include minimal fixed principal repayments over the next six years, as well as decreased interest rates on these loan facilities. EZI also obtained USD118mn in additional revolving credit facilities for working capital. As part of the refinancing package, the founding Chew family will be charging 100mn of their shares to the secured lenders (out of Mr Chew Thiam Keng's deemed interest of 217.6mn shares). Various stakeholders will be issued new shares and/or warrants. Next steps would be for an EGM to be convened in March 2018 to seek shareholders' approval for the various shares and warrants issuance. We are reviewing the details and will revert shortly. (Company)

**Table 1: Key Financial Indicators**

	8-Feb	1W chg (bps)	1M chg (bps)		8-Feb	1W chg	1M chg
iTraxx Asiax IG	69	5	9	Brent Crude Spot (\$/bbl)	65.31	-6.23%	-3.64%
iTraxx SovX APAC	12	1	1	Gold Spot (\$/oz)	1,314.39	-2.55%	-0.46%
iTraxx Japan	45	2	1	CRB	192.34	-	-0.30%
iTraxx Australia	60	3	7	GSCI	440.34	-3.55%	-0.77%
CDX NA IG	54	7	8	VIX	27.73	104.80%	191.28%
CDX NA HY	107	-1	-2	CT10 (bp)	2.811%	2.17	33.13
iTraxx Eur Main	48	4	4	USD Swap Spread 10Y (bp)	2	-1	4
iTraxx Eur XO	251	13	25	USD Swap Spread 30Y (bp)	-17	-4	4
iTraxx Eur Shr Fin	46	4	3	TED Spread (bp)	28	-5	-3
iTraxx Sovx WE	18	-1	-3	US Libor-OIS Spread (bp)	24	-1	-1
iTraxx Sovx CEEMEA	32	-1	-2	Euro Libor-OIS Spread (bp)	3	1	1
					8-Feb	1W chg	1M chg
				AUD/USD	0.783	-2.64%	-0.19%
				USD/CHF	0.943	-1.74%	3.64%
				EUR/USD	1.228	-1.86%	2.59%
				USD/SGD	1.326	-1.33%	0.51%
Korea 5Y CDS	50	1	5	DJIA	24,893	-4.80%	-1.54%
China 5Y CDS	59	5	14	SPX	2,682	-5.03%	-2.40%
Malaysia 5Y CDS	61	4	9	MSCI Asiax	712	-6.42%	-4.05%
Philippines 5Y CDS	62	3	9	HSI	30,535	-6.46%	-1.18%
Indonesia 5Y CDS	85	3	7	STI	3,392	-4.38%	-3.43%
Thailand 5Y CDS	42	0	1	KLCI	1,839	-1.58%	0.38%
				JCI	6,542	-0.85%	2.46%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
07-Feb-18	Full Dragon (Hong Kong) International Development Ltd	'NR/NR/BB+'	USD300mn	3-year	5.85%
07-Feb-18	Shangrao Investment Holdings International Co Ltd	Not rated	USD200mn	3-year	6.4%
07-Feb-18	Daegu Bank Ltd	'A-/A2/NR'	USD300mn	5.5-year	CT5+135bps
06-Feb-18	Sunshine 100 China Holdings	Not rated	USD165mn	SUNCH 8.5%20s	8.5%
2-Feb-18	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD400mn	3-year	5.25%
2-Feb-18	GLL IHT Pte Ltd	Not Rated	SGD50mn	GUOLSP 4.6%-PERPs	100% + accrued interest
1-Feb-18	New Metro Global Ltd	Not Rated	USD300mn	364-day	4.75%
1-Feb-18	China Logistics Property Holdings Co Ltd	Not rated	USD100mn	362-day	9%
1-Feb-18	China Cinda Finance (2017) I Ltd	'A-/Baa1/A'	USD200mn	3-year	5.1%

Source: OCBC, Bloomberg

## Credit Headlines (Cont'd):

**DBS Group Holdings Ltd. ("DBS"):** DBS reported its 4Q2017 and FY2017 results which were both characterized by higher broad-based loan and fee income growth. These help offset weaker NIMs versus FY2016 as well as lower trading income. 4Q2017 recorded strong income growth of 10% y/y driven by the 15% y/y increase in net interest income, due to higher NIM (1.78% versus 1.71% in 4Q2016; 1.73% in 3Q2017) as well as loan growth (up 4% y/y, or 3% excluding the SGD2bn worth consolidated from the ANZ PB acquisition). Net fee and commission income and other non-interest income combined was flat for the quarter. Quarterly expenses were up 8% q/q and 11% y/y due to higher marketing and technology cost as well as the consolidation of ANZ. Expense growth was contained due to its efforts in digitalisation and implementation of cost management initiatives. Allowances for credit losses has fallen significantly by 51% y/y, as no further charges were taken for oil and gas support service exposure given that they have been dealt with in the previous quarter. Overall, the lower allowances and strong net interest income growth translated to net profit up 33%, a new quarterly high. For FY2017, total income was up 4% largely due to net interest income growth, with NIM compression (2017: 1.75% versus 2016: 1.80%) mitigated by strong underlying loan growth of 9% or 11% in constant currency terms. The income growth of 4% was driven by strong net interest income as well as fee income growth of 7% y/y and 12% y/y respectively. Wealth Management and Investment Products income saw strong growth. Performance was however dragged down by a 18% y/y decline on other non-interest income. Expenses were up 3% while allowances for credit losses inched up by 8% y/y. Specific allowances doubled driven by oil and gas support services but this was partially offset by a write-back of general allowances. Overall, the strong net interest income growth translated to net profit up 4% to SGD4.39bn. Balance sheet remains strong with total assets up 2% q/q and 5% y/y to SGD517.7bn as at 31 December 2017. This was driven by growth in gross customer loans by 7% q/q and 3% y/y to SGD327.7bn as at 31 December 2017 with growth concentrated in financial institution by industry and rest of Greater China by geography. On the liabilities side, customer deposit growth was higher than customer loans rising 3% q/q and 8% y/y to SGD373.6bn as at 31 December 2017 and this translated to an improved loan to deposit ratio of 86.5% for FY2017 (86.8% for FY2016). DBS's NPL were more or less constant q/q but as mentioned in previous quarters was up 25% y/y. NPL ratio remains steady q/q at 1.7% but grew relative to FY2016's 1.4%. Due to earnings growth, DBS' CET1 ratio was 14.3% as at 4Q2017, well above the regulatory minimum of 8.0%. This was up from 14.0% in 3Q2017 and 14.1% in FY2016. Additionally, DBS' leverage ratio of 7.6% remains well above the minimum Basel III requirement of 3%. In all, DBS's return to strong earnings growth highlights strong business franchise but NPL burden looks to remain for the time being. Its earnings performance and existing strong capital ratios will keep credit profile stable for now. (OCBC, Company)

**Singapore Telecommunications Ltd ("SingTel"):** SingTel reported 3QFY2018 results. Results are mixed, with stronger core results dampened by lower contributions from associates. Revenue (mainly from the Singapore and Australia core) rose 4.4% y/y to SGD4.6bn, lifted by strong performance from Group Consumer (+3.1% y/y to SGD2.7bn) and Group Digital Life (+121.9% y/y to SGD325mn) though Group Enterprise saw a decline (-3.9% y/y to SGD1.6bn). The outperformance at Group Consumer was mainly due to Australia (+7.8% y/y to AUD2.0bn), with Singapore's operating revenue declining 5.5% y/y to SGD621mn due to timing of smartphone launches (equipment sales fell 11.2% y/y to SGD119mn). Competition appears to have cut into revenues too, with lower voice revenue and increased mixed of SIM-only plans (with lower ARPU). For Group Enterprise, the revenue decline was due to phasing of projects, one-off product sales in the previous period and declines in traditional carriage services. Overall reported group EBITDA mirrored revenue to increase 6.0% y/y to SGD1.3bn with larger gains in Group Consumer (+7.4% y/y to SGD868mn) compared to Group Enterprise (+0.1% y/y to SGD456mn). However, share of contribution from associates (profit after tax) dipped by 14.2% y/y to SGD420mn, with declines across Airtel (-48.7% y/y to SGD25mn), Telkomsel (-8.8% y/y to SGD248mn) and decline in contribution from Netlink NBN Trust (-62.3% y/y to SGD12mn) with the reduction in economic interest. The decline in Telkomsel is not worrying though, as the decline was driven more by declines in IDR against SGD (account for 6% out of 8.8% of the decline) while EBITDA was stable. Airtel though continued to face intense competition, which weighed on its profits. As a result, with declines in associate outweighing the positives from the core segments, net profit declined 8.8% y/y to SGD882.2mn. Meanwhile, with net debt declining q/q to SGD8.6bn (2QFY2018: SGD9.5bn) due to a net repayment in term loans, reported Net Debt/(EBITDA & share of associates pre-tax profits) improved to 1.1x (2QFY2018: 1.2x). Nevertheless, with continued strong cashflow generation (reported 3QFY2018: SGD2.8bn) and a diversified profile, we continue to hold SingTel at a Positive (2) Issuer Profile. (Company, OCBC)

## Credit Headlines (Cont'd):

**ABN Amro Group NV ("ABN"):** ABN announced its 4Q2017 and FY2017 results with operating income for 4Q2017 up 11% q/q due to growth in net interest income (net interest margin and volume growth) and other operating income. For FY2017, operating income was up 8% y/y and was again due to growth in net interest income and other operating income. Expense performance was solid with operating expenses down 3% and 1% y/y respectively for 4Q2017 and FY2017 – other operating expense growth from elevated restructuring expenses (digitization and process optimisation) mitigated the material fall in personnel expenses. While restructuring charges were still a feature of FY2017 results (EUR164mn), they were nevertheless lower than FY2016 (EUR348mn) which is a positive trend. As a result of operating income growth and operating expense contraction, ABN's cost to income ratio improved to 68% for 4Q2017 (4Q2016: 78%) and 60% for FY2017 (FY2016: 66%). Impairment charges were actually positive (ie: generated income) given the improving economic climate in the Netherlands (net releases in consumer and corporate loans and limited problems in mortgages and energy, commodities and transportation portfolio) and changes to ABN's risk weighted asset modelling for smaller commercial banking loans. As a result, reported profit after tax for ABN improved 63% and 55% for 4Q2017 and FY2017 respectively. Extraordinary items (sale of Visa equity stake, Asia Private Banking divestment, unearned interest release, additional provisions) continue to influence earnings and excluding these, net profit for 4Q2017 was marginally lower y/y. ABN's balance sheet shrank marginally although loans were up 1.2% and 1.6% q/q and y/y respectively due to lower securities financing (seasonal), and falls in financial assets held for trading, derivatives and financial investments). Of note in the loan growth trends in relatively stable residential mortgages (seasonal) while loans to professional counterparties and corporates grew. Owing to the higher rise in capital from earnings against the rise in risk weighted assets as well as issuance of a EUR1bn AT1 instrument in September and settled in October, ABN's capital ratios improved marginally with the fully loaded CET1 ratio of 17.7% up 10bps from 17.6% for 3Q2017. This remains well above its current minimum Supervisory Review and Evaluation Process CET1 requirements of 9% to accommodate Basel IV and IFRS9 capital impacts. ABN's fully loaded leverage ratio also improved slightly to 4.1% for FY2017 (3.9% as at both 3Q2017 and FY2016). We continue to review the numbers but given the stable results, we maintain our Neutral (3) issuer profile rating for now. (Company, OCBC)

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